



City of Broken Bow, Oklahoma

Annual Financial Report

Year-End June 30, 2013

City of Broken Bow, Oklahoma
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June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Broken Bow, Oklahoma

We have audited the accompanying financial statements of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Broken Bow, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.C.

Basis of Accounting

We draw attention to Note 1.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Combining and individual nonmajor fund financial statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Broken Bow, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis (pages 53-56) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements—modified cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Disclaimer on other supplementary information

The management's discussion and analysis (pages 3-9), schedule of retirement funding progress (page 49), budgetary comparison schedules (pages 50-52), which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014 on our consideration of the City of Broken Bow, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Broken Bow, Oklahoma's internal control over financial reporting and compliance.



February 13, 2014

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

Within the management's discussion and analysis of the City of Broken Bow, Oklahoma's annual financial report, management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

FINANCIAL HIGHLIGHTS

With respect to the government-wide financial statements:

- § The assets of the City of Broken Bow exceeded its liabilities at the close of the most recent fiscal year by \$25,426,879 (net position). Of this amount, \$6,657,714 (unrestricted net position) may be used to meet the governments' ongoing obligations to citizens and creditors.

With respect to the fund financial statements:

- § As of the close of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$1,378,788, an increase of \$293,566 from the prior year.
- § At the end of the current fiscal year, unassigned fund balance for the General Fund was \$602,118, or 22 percent of the total general fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction of the City of Broken Bow, Oklahoma's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* represents government-wide information on all of the City's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

The *statement of revenues, expenses and changes in net position* presents government-wide information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, some revenues and expenses reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave which is available for redemption upon retirement).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, culture and recreation, cemetery and parks and health and welfare. Business-type activities include water, wastewater utilities, electricity and solid waste management.

The government-wide financial statements can be found on pages 10-11 in this report.

Fund Financial Statements.

A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spending resources available at the end of the fiscal year. Such information may be useful in evaluating the City's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City internally maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and grant fund, which are considered to be major funds.

The City of Broken Bow adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and all major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-14 of this report.

Proprietary Funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two types of proprietary funds. *Enterprise funds* essentially encompass the same functions reported as business-type activities in the government-wide statements. Services provided to customers external to the City. The City of Broken Bow uses enterprise funds to account for its water, wastewater, electric and solid waste management. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail. *Internal service funds* report services provided within the city organization. Currently the City of Broken Bow uses an internal service fund to allocate self insured health costs.

The basic proprietary fund financial statements can be found on pages 15-18 of this report.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-48 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 53-56 of this report.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Broken Bow, assets exceeded liabilities by \$25,426,879 at the close of the most recent fiscal year.

By far the largest portion of the City of Broken Bow's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Broken Bow uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Broken Bow's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Position at June 30, 2013

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Current and other assets	\$ 1,885,172	\$ 1,566,272	\$ 6,509,102	\$ 6,200,585	\$ 8,394,274	\$ 7,766,857
Capital assets	<u>8,740,383</u>	<u>8,768,328</u>	<u>26,220,694</u>	<u>27,127,863</u>	<u>34,961,077</u>	<u>35,896,191</u>
Total assets	10,625,555	10,334,600	32,729,796	33,328,448	43,355,351	43,663,048
Long-term liabilities	46,547	120,561	16,933,992	17,732,712	16,980,539	17,853,273
Other liabilities	<u>78,761</u>	<u>209,021</u>	<u>869,172</u>	<u>772,878</u>	<u>947,933</u>	<u>981,899</u>
Total liabilities	125,308	329,582	17,803,164	18,505,590	17,928,472	18,835,172
Net Position						
Net Investment in Capital						
Assets	8,632,409	8,458,482	9,504,266	9,693,022	18,136,675	18,151,504
Restricted	632,490	543,967	-	-	632,490	543,967
Unrestricted	<u>1,235,348</u>	<u>1,002,569</u>	<u>5,422,366</u>	<u>5,129,836</u>	<u>6,657,714</u>	<u>6,132,405</u>
Total net position	<u>\$ 10,500,247</u>	<u>\$ 10,005,018</u>	<u>\$ 14,926,632</u>	<u>\$ 14,822,858</u>	<u>\$ 25,426,879</u>	<u>\$ 24,827,876</u>

At the end of the current fiscal year, the City of Broken Bow is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

Change in Net Position for the Year Ended June 30, 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Revenues						
Charges for Services	\$ 1,545,657	\$ 1,574,951	\$ 5,439,774	5,429,015	\$ 6,985,431	\$ 7,003,966
Capital Grants and Contributions	182,549	50,983	-	-	182,549	50,983
Taxes	2,393,885	2,246,835	-	-	2,393,885	2,246,835
Interest	7,539	10,041	38,178	47,217	45,717	57,258
Total Revenues	<u>4,129,630</u>	<u>3,882,810</u>	<u>5,477,952</u>	<u>5,476,232</u>	<u>9,607,582</u>	<u>9,359,042</u>
Expenses						
General Government	367,014	653,340	-	-	367,014	653,340
Public Safety	1,546,223	1,569,420	-	-	1,546,223	1,569,420
Streets	636,729	640,147	-	-	636,729	640,147
Culture and Recreation	412,497	148,385	-	-	412,497	148,385
Cemetery and Parks	228,878	205,106	-	-	228,878	205,106
Health and Welfare	1,076,749	948,349	-	-	1,076,749	948,349
Water	-	-	2,952,133	2,788,839	2,952,133	2,788,839
Sewer	-	-	759,885	743,090	759,885	743,090
Electric	-	-	283,102	298,795	283,102	298,795
Landfill	-	-	745,369	659,799	745,369	659,799
Total Expenses	<u>4,268,090</u>	<u>4,164,747</u>	<u>4,740,489</u>	<u>4,490,523</u>	<u>9,008,579</u>	<u>8,655,270</u>
Change in net position before transfers	(138,460)	(281,937)	737,463	985,709	599,003	703,772
Transfers	<u>633,689</u>	<u>601,300</u>	<u>(633,689)</u>	<u>(601,300)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>495,229</u>	<u>319,363</u>	<u>103,774</u>	<u>384,409</u>	<u>599,003</u>	<u>703,772</u>
Contributed Capital	<u>-</u>	<u>(68,338)</u>	<u>-</u>	<u>68,338</u>	<u>-</u>	<u>-</u>
Net position, beginning	<u>10,005,018</u>	<u>9,753,993</u>	<u>14,822,858</u>	<u>14,370,111</u>	<u>24,827,876</u>	<u>24,124,104</u>
Net position, ending	<u>\$ 10,500,247</u>	<u>\$ 10,005,018</u>	<u>\$ 14,926,632</u>	<u>\$ 14,822,858</u>	<u>\$ 25,426,879</u>	<u>\$ 24,827,876</u>

Governmental activities. Governmental activities increased the City of Broken Bow's net position by \$495,229.

Business-type activities. Business-type activities increased the City of Broken Bow's net position by \$103,774.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2013

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Broken Bow uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City of Broken Bow's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Broken Bow's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$1,378,788, an increase of \$293,566 in comparison with the prior year.

The general fund is the chief operating fund of the City of Broken Bow. At the end of the current fiscal year, unreserved fund balance of the general fund was \$602,118.

Proprietary funds. The City of Broken Bow's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Broken Bow's proprietary funds reported combined ending net position of \$14,926,632, an increase of \$103,774 in comparison with the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues exceeded budgeted amounts in the General Fund by \$368,292, and expenditures were \$335,234 less than budgeted amounts for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City of Broken Bow's investment in capital assets for its governmental and business type activities as of June 30, 2013, amounts to \$34,961,077 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads highways, and bridges. The total change in the City of Broken Bow's investment in capital assets for the current fiscal year was a \$27,945 decrease for governmental activities and a \$907,169 decrease for business-type activities.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
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Capital Assets (net of depreciation)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Land and Improvements	\$ 1,601,178	\$ 1,352,045	\$ 1,153,621	\$ 1,149,973	\$ 2,754,799	\$ 2,502,018
Construction in Progress	-	-	-	-	-	-
Buildings and Improvements	2,557,010	2,535,807	621,554	621,554	3,178,564	3,157,361
Property and Equipment	2,556,499	2,459,069	2,779,717	2,690,109	5,336,216	5,149,178
Infrastructure	5,558,449	5,558,449	-	-	5,558,449	5,558,449
Electric System	-	-	1,329,466	1,329,466	1,329,466	1,329,466
Gravity Flow Water System	-	-	23,661,492	23,661,492	23,661,492	23,661,492
Sewer System	-	-	7,945,447	7,945,447	7,945,447	7,945,447
	<u>12,273,136</u>	<u>11,905,370</u>	<u>37,491,297</u>	<u>37,398,041</u>	<u>49,764,433</u>	<u>49,303,411</u>
Accumulated Depreciation	<u>(3,532,753)</u>	<u>(3,137,042)</u>	<u>(11,270,603)</u>	<u>(10,270,178)</u>	<u>(14,803,356)</u>	<u>(13,407,220)</u>
Capital Assets, Net	<u>\$ 8,740,383</u>	<u>\$ 8,768,328</u>	<u>\$ 26,220,694</u>	<u>\$ 27,127,863</u>	<u>\$ 34,961,077</u>	<u>\$ 35,896,191</u>

Additional information on the City of Broken Bow's capital assets can be found in note **IV.C** on page 32 of this report.

Long-term debt. At the end of the current fiscal year, the City of Broken Bow has total bonded debt outstanding of \$6,065,000. The remainder of the City of Broken Bow's debt represents capital leases and notes payable.

Long-Term Debt

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Capital Leases	\$ 96,651	\$ 157,802	\$ -	\$ -	\$ 96,651	\$ 157,802
Notes Payable	11,323	152,044	10,651,428	11,069,841	10,662,751	11,221,885
Revenue Bonds Payable	-	-	6,065,000	6,365,000	6,065,000	6,365,000
	<u>\$ 107,974</u>	<u>\$ 309,846</u>	<u>\$ 16,716,428</u>	<u>\$ 17,434,841</u>	<u>\$ 16,824,402</u>	<u>\$ 17,744,687</u>

The City of Broken Bow's total debt for governmental activities decreased by \$201,872 during the current fiscal year and the debt for business-type activities decreased by \$718,413.

Additional information on the City of Broken Bow's long-term debt can be found in note **IV.E** beginning on page 34 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Broken Bow's finances for all those with an interest in the governments' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Broken Bow, Oklahoma.

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
June 30, 2013

	Governmental Activities	Business Type Activites	Total
<i>ASSETS</i>			
Cash and Cash Equivalent	\$ 1,774,968	\$ 2,495,295	\$ 4,270,263
Restricted Cash and Cash Equivalent	65,841	2,636,163	2,702,004
Restricted Investments	-	199,739	199,739
Inventory	-	55,000	55,000
Interfund Balances	44,363	(44,363)	-
Capital Assets, not being depreciated	1,184,594	208,000	1,392,594
Capital Assets, net of depreciaiton	7,555,789	26,012,694	33,568,483
Debt Issuance Costs	-	976,818	976,818
Water Storage Rights	-	170,189	170,189
Hydro-power Investment	-	20,261	20,261
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 10,625,555</u>	<u>\$ 32,729,796</u>	<u>\$ 43,355,351</u>
<i>LIABILITIES</i>			
Bonds Pending Court	\$ 9,809	\$ -	\$ 9,809
Customer Deposits	-	65,453	65,453
Customer Deposits, Due within a year	7,525	24,230	31,755
Long Term Liabilities	46,547	15,871,486	15,918,033
Long Term Liabilities, Due within a year	61,427	844,942	906,369
Accrued Landfill Closure and Post-Closure Costs	-	997,053	997,053
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>125,308</u>	<u>17,803,164</u>	<u>17,928,472</u>
<i>NET POSITION</i>			
Net Investment in Capital Assets	8,632,409	9,504,266	18,136,675
Restricted	632,490	-	632,490
Unrestricted	1,235,348	5,422,366	6,657,714
	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u>\$ 10,500,247</u>	<u>\$ 14,926,632</u>	<u>\$ 25,426,879</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
For the Year Ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<i>Functions/Programs</i>							
Primary Government							
Governmental Activities							
General Government	\$ 367,014	257,233	\$ -	\$ -	\$ (109,781)	\$ -	\$ (109,781)
Public Safety	1,546,223	164,481	-	-	(1,381,742)	-	(1,381,742)
Streets	636,729	5,485	-	182,549	(448,695)	-	(448,695)
Culture and Recreation	412,497	1,956	-	-	(410,541)	-	(410,541)
Cemetery and Parks	228,878	452	-	-	(228,426)	-	(228,426)
Health and Welfare	1,076,749	1,116,050	-	-	39,301	-	39,301
Total Governmental Activities	<u>4,268,090</u>	<u>1,545,657</u>	<u>-</u>	<u>182,549</u>	<u>(2,539,884)</u>	<u>-</u>	<u>(2,539,884)</u>
Business-Type Activities							
Water	2,952,133	2,697,030	-	-	-	(255,103)	(255,103)
Sewer	759,885	650,370	-	-	-	(109,515)	(109,515)
Electric	283,102	1,273,569	-	-	-	990,467	990,467
Landfill	745,369	818,805	-	-	-	73,436	73,436
Total Business Type Activities	<u>4,740,489</u>	<u>5,439,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>699,285</u>	<u>699,285</u>
Total Primary Government	<u>\$ 9,008,579</u>	<u>\$ 6,985,431</u>	<u>\$ -</u>	<u>\$ 182,549</u>	<u>(2,539,884)</u>	<u>699,285</u>	<u>(1,840,599)</u>
General Revenues							
Taxes					2,393,885	-	2,393,885
Interest					7,539	38,178	45,717
Transfers					633,689	(633,689)	-
Total General Revenues and Transfers					<u>3,035,113</u>	<u>(595,511)</u>	<u>2,439,602</u>
Change in Net Position					495,229	103,774	599,003
Net Position - Beginning, restated					<u>10,005,018</u>	<u>14,822,858</u>	<u>24,827,876</u>
Net Position - Ending					<u>\$ 10,500,247</u>	<u>\$ 14,926,632</u>	<u>\$ 25,426,879</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Governmental Funds
June 30, 2013

	General	Grant	Other Governmental	Total
<i>Assets</i>				
Cash	\$ 603,501	\$ 147,928	\$ 600,330	\$ 1,351,759
Due From Other Funds	54,278	53	35,359	89,690
Total Assets	<u>\$ 657,779</u>	<u>\$ 147,981</u>	<u>\$ 635,689</u>	<u>\$ 1,441,449</u>
<i>Liabilities</i>				
Overdraft Liability	\$ -	\$ -		\$ -
Deposits	7,525	-	7,000	14,525
Bonds Pending Court	9,809	-	-	9,809
Due To Other Funds	38,327	-	-	38,327
Total Liabilities	<u>55,661</u>	<u>-</u>	<u>7,000</u>	<u>62,661</u>
<i>Fund Balances</i>				
Restricted	-	-	632,490	632,490
Assigned	6,779	-	-	6,779
Unassigned	595,339	147,981	(3,801)	739,519
Total Fund Balances	<u>602,118</u>	<u>147,981</u>	<u>628,689</u>	<u>1,378,788</u>
Total Liabilities and Fund Balances	<u>\$ 657,779</u>	<u>\$ 147,981</u>	<u>\$ 635,689</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the fund.

8,740,383

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The assets and liabilities of the internal service fund are included in the governmental statement of net assets.

489,050

Long-term liabilities, including bonds payable and applicable interest, are not due and payable in the current period and, therefore, are not reported in the fund.

(107,974)

\$ 10,500,247

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds- Modified Cash Basis
For the Year Ended June 30, 2013

	General	Grant	Other Governmental	Total
REVENUE				
Taxes	\$ 1,730,930	\$ -	\$ 410,208	\$ 2,141,138
Intergovernmental	252,747	-	-	252,747
Grants	-	182,549	51,530	234,079
License and Permits	118,390	-	-	118,390
Charges for Service	70,497	-	-	70,497
Fines and Forfeitures	164,482	-	-	164,482
Rent	8,360		150	8,510
Miscellaneous	78,803	5,485	2,407	86,695
Interest	3,287	-	4,252	7,539
Total Revenue	2,427,496	188,034	468,547	3,084,077
EXPENDITURES				
<i>Current</i>				
General Government	318,775	-	112,256	431,031
Public Safety	1,446,911	52,543	-	1,499,454
Streets	603,305	-	-	603,305
Culture and Recreation	12,808	-	76,392	89,200
Cemetery and Parks	164,201	215,717	-	379,918
<i>Capital Outlay</i>				
General Government	-	-	8,950	8,950
Public Safety	47,703	-	-	47,703
Streets	15,000	-	-	15,000
Culture and Recreation	10,083	-	3,200	13,283
Cemetery and Parks	71,784	-	-	71,784
Health and Welfare	-	-	58,932	58,932
Debt Service	67,943	-	137,697	205,640
Total Expenditures	2,758,513	268,260	397,427	3,424,200
Excess (Deficiency) of Revenues Over (Under) Expenditures	(331,017)	(80,226)	71,120	(340,123)
Other Financing Sources				
Transfers In	516,700	297,969	18,091	832,760
Transfers Out	(199,071)	-	-	(199,071)
Total Other Financing Sources	317,629	297,969	18,091	633,689
Net Change in Fund Balances	(13,388)	217,743	89,211	293,566
Fund Balances - Beginning	615,506	(69,762)	539,478	1,085,222
Fund Balances - Ending	<u>\$ 602,118</u>	<u>\$ 147,981</u>	<u>\$ 628,689</u>	<u>\$ 1,378,788</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Revenues, Expenses
and Changes in Net Position - Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2013

Amounts reported for governmental activities

in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ 293,566
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(27,945)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	201,872
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Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The net gain or loss of certain activities of internal service funds is reported with governmental activities.	<div style="border-top: 1px solid black; display: inline-block;">27,736</div>
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Change in Net Position - total governmental funds	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 495,229</div>
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The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
Proprietary Funds
June 30, 2013

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
ASSETS				
<i>Current Assets</i>				
Cash	\$ 2,225,077	\$ 270,218	\$ 2,495,295	\$ 489,050
Restricted Cash	1,449,531	1,186,632	2,636,163	-
Restricted Investments	199,739	-	199,739	-
Inventory	55,000	-	55,000	-
Due from Other Funds	197,026	77,200	274,226	100
Total Current Assets	<u>4,126,373</u>	<u>1,534,050</u>	<u>5,660,423</u>	<u>489,150</u>
<i>Noncurrent Assets</i>				
Land	130,000	78,000	208,000	-
Land Improvements	8,000	937,621	945,621	-
Buildings and Improvements	587,803	33,751	621,554	-
Property and Equipment	694,046	2,085,671	2,779,717	-
Electric System	1,329,466	-	1,329,466	-
Gravity Flow Water System	23,661,492	-	23,661,492	-
Sewer System	7,945,447	-	7,945,447	-
Accumulated Depreciation	(9,538,453)	(1,732,150)	(11,270,603)	-
Total Noncurrent Assets	<u>24,817,801</u>	<u>1,402,893</u>	<u>26,220,694</u>	<u>-</u>
<i>Other Assets</i>				
Debt Issuance Costs	100,700	-	100,700	-
Unamortized Debt Issuance Costs	876,118	-	876,118	-
Note Receivable	-	170,941	170,941	-
Water Storage Rights	170,189	-	170,189	-
Hydro-power Investment	20,261	-	20,261	-
	<u>1,167,268</u>	<u>170,941</u>	<u>1,338,209</u>	<u>-</u>
Total Assets	<u>\$ 30,111,442</u>	<u>\$ 3,107,884</u>	<u>\$ 33,219,326</u>	<u>489,150</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
Proprietary Funds
June 30, 2013

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>LIABILITIES</i>				
<i>Current Liabilities</i>				
Customer Deposits, Current	24,230	-	24,230	-
Notes Payable, Current	471,489	73,453	544,942	-
Interfund note payable, Current	29,837	-	29,837	-
Bonds Payable, Current	300,000	-	300,000	-
Due to Other Funds	307,918	10,671	318,589	-
Accrued Landfill Closure and Post-Closure Costs	-	997,053	997,053	-
Total Current Liabilities	<u>1,133,474</u>	<u>1,081,177</u>	<u>2,214,651</u>	<u>-</u>
<i>Noncurrent Liabilities</i>				
Notes Payable, non-current	9,930,578	175,908	10,106,486	-
Customer Deposits, Non-current	65,453	-	65,453	-
Interfund note payable, non-current	141,104	-	141,104	-
Bonds payable, non-current	<u>5,765,000</u>	<u>-</u>	<u>5,765,000</u>	<u>-</u>
Total Noncurrent Liabilities	<u>15,902,135</u>	<u>175,908</u>	<u>16,078,043</u>	<u>-</u>
Total Liabilities	<u>17,035,609</u>	<u>1,257,085</u>	<u>18,292,694</u>	<u>-</u>
<i>NET POSITION</i>				
Net Investment in Capital Assets	8,144,177	1,153,532	9,297,709	-
Restricted for Debt Service	95,340	-	-	-
Unrestricted	<u>4,836,316</u>	<u>697,267</u>	<u>5,628,923</u>	<u>489,150</u>
Total Net Position	<u>\$ 13,075,833</u>	<u>\$ 1,850,799</u>	<u>\$ 14,926,632</u>	<u>\$ 489,150</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2013

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>Operating Revenues:</i>				
Water	\$ 2,639,105	\$ -	\$ 2,639,105	\$ -
Sewer	650,370	-	650,370	-
Electric	1,273,569	-	1,273,569	-
Landfill	-	818,811	818,811	-
Penalties/Reconnect Fees	54,956	-	54,956	-
Other Operating Revenue	2,963	-	2,963	1,045,553
Total Operating Revenue	4,620,963	818,811	5,439,774	1,045,553
<i>Operating Expenses:</i>				
Water	1,408,493	-	1,408,493	-
Sewer	669,090	-	669,090	-
Electric	283,102	-	283,102	-
Landfill	-	614,801	614,801	-
Insurance Premiums and Claims	-	-	-	1,017,817
Depreciation	883,687	116,738	1,000,425	-
Amortization	51,782	-	51,782	-
Total Operating Expenses	3,296,154	731,539	4,027,693	1,017,817
Operating Income (Loss)	1,324,809	87,272	1,412,081	27,736
<i>Nonoperating Revenues (Expenses):</i>				
Interest Revenue	21,327	16,851	38,178	-
Interest Expense	(698,966)	(13,830)	(712,796)	-
Total Nonoperating Revenues (Expenses)	(677,639)	3,021	(674,618)	-
Income (Loss) before Transfers	647,170	90,293	737,463	27,736
<i>Other Financing Sources (Uses):</i>				
Transfers In	-	-	-	-
Transfers Out	(633,689)	-	(633,689)	-
Total Other Financing Sources	(633,689)	-	(633,689)	-
Net Change in Net Position	13,481	90,293	103,774	27,736
Total Net Position - Beginning, restated	13,062,352	1,760,506	14,822,858	461,414
Total Net Position - Ending	\$ 13,075,833	\$ 1,850,799	\$ 14,926,632	\$ 489,150

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2013

	Public Works Authority	Kulli Chito Environmental Authority
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash Received from Customers	\$ 4,625,910	\$ 818,811
Cash Payments to suppliers and employees	<u>(2,360,685)</u>	<u>(603,761)</u>
Net Cash Provided by Operating Activities	<u>2,265,225</u>	<u>215,050</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>		
Transfers to Other Funds	<u>(633,689)</u>	<u>-</u>
Net Cash Used by Noncapital Financing Activities	<u>(633,689)</u>	<u>-</u>
<i>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</i>		
Payment of Debt	(656,377)	(62,036)
Purchase of Property, Plant and Equipment	<u>(46,063)</u>	<u>(47,193)</u>
Net Cash Used by Capital Financing Activities	<u>(702,440)</u>	<u>(109,229)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Change in Investments	(7,189)	-
Interest Expense	(698,966)	(13,830)
Interest Income	<u>21,327</u>	<u>16,851</u>
Net Cash Provided (Used) by Investing Activities	<u>(684,828)</u>	<u>3,021</u>
Net Increase (Decrease) in Cash and Cash Equivalents	244,268	108,842
Cash and Cash Equivalents, July 1, 2012	<u>3,430,340</u>	<u>1,348,008</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 3,674,608</u>	<u>\$ 1,456,850</u>

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income	\$ 1,324,809	\$ 87,272
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	935,469	116,738
Changes in Assets and Liabilities:		
Increase (Decrease) in Customer Deposits	4,947	-
Increase (Decrease) in Landfill Closure and Post-closure costs	<u>-</u>	<u>11,040</u>
	<u>940,416</u>	<u>127,778</u>
Net Cash Provided by Operating Activities	<u>\$ 2,265,225</u>	<u>\$ 215,050</u>

The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Broken Bow is a charter city created under Title 11, Chapter 17 of the Oklahoma Statutes, operating under the Council-Manager form of government. The governing body of the City is the City Council. The appointed City Manager is the executive officer of the City.

For financial reporting purposes the financial statements included all funds and account groups over which the City Council exercises oversight responsibility. The criteria used to determine whether or not to include other entities in the financial statements were (1) the selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, and (4) accountability for fiscal matters. Based on these criteria, the Broken Bow Public Works Authority and Kulli Chito Environmental Authority are included.

Broken Bow Public Works Authority

The Broken Bow Public Works Authority is a Title 60.O.S. public trust created April 21, 1959, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Broken Bow Public Work Authority is reported as a blended component unit.

Kulli Chito Environmental Authority

The Kulli Chito Environmental Authority is a Title 60.O.S. public trust created April 14, 1993, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Kulli Chito Environmental Authority is reported as a blended component unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Government-Wide and Fund Financial Statements – continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level. The proprietary fund also uses the economic resources measurement focus.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

The statement of net position and activities and the fund financial statements are reported on a modified basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Debt issue cost and the amortization of those costs, where applicable
- Long-term debt
- Cash-based interfund receivables and payables
- Other cash-based receivable and payables

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources.

Grant Fund – is a special revenue fund used to account for grant revenues received, and the expenditure of those funds.

The government reports the following major proprietary funds:

The *Broken Bow Public Works Authority*, which accounts for all the operating revenues and expenses related to providing water, sewer and electric services, and the *Kulli Chito Environmental Authority* which accounts for all the operating revenues and expenses related to sanitation services.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- continued**

Additionally, the government reports the following fund types:

Special revenue funds: Senior Citizens, Airport, Cemetery Care, Library, Police Donation and Nutrition.

Internal service funds account for self insured health costs provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds are reported with governmental activities in the government-wide statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trust bonds whose beneficiary is a county, municipality or school district, except industrial development bonds; direct obligations of the United States; and certificates of deposit. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Investments for the government, as well as for its component units, are reported at cost, which approximates fair value.

Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements including interest are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u><i>Assets</i></u>	<u><i>Years</i></u>
Buildings	10 - 50
Building Improvements	10 - 20
Public Domain Infrastructure	50
System Infrastructure	10 - 30
Machinery and Equipment	5 - 10

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net Position.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Fund equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

1. *Net Investment in capital assets* – consists of capital assets net of accumulated depreciation and related debt.
2. *Restricted net position* – consists of net position with constraints on the use either by: (1) external groups or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation of the \$9,121,459 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

The first element of that reconciliation explains that capital assets used in governmental activities that are not financial resources and therefore, are not reported in the funds.

Land and Improvements	\$ 1,601,178
Buildings and Improvements	2,557,010
Property and Equipment	2,556,499
Infrastructure	<u>5,558,449</u>
	12,273,136
Accumulated Depreciation	<u>(3,532,753)</u>
Capital Assets, Net	<u><u>\$ 8,740,383</u></u>

Another element of that reconciliation is the assets and liabilities of the internal service funds included in governmental activities in the statement of net assets. Following are the details of the net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*:

Assets	
Cash and equivalents	<u>\$ 489,050</u>
Total Assets	<u>489,050</u>
 Net Position	 <u><u>\$ 489,050</u></u>

The last element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

Capital Leases	\$ 96,651
Notes Payable	<u>11,323</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (107,974)</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$201,663 difference between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 367,766
Depreciation Expense	<u>(395,711)</u>
Net adjustment to decrease net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position -</i> <i>governmental activities</i>	<u><u>\$ (27,945)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Capital Lease Principal Payments	\$ 61,151
Notes Payable Principal Payments	<u>140,721</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position -</i> <i>governmental activities</i>	<u><u>\$ 201,872</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - continued

The last element of the reconciliation states “the net gain of certain activities of internal service funds is reported with governmental activities.

Change in Net Position - Internal Service Funds	\$ 27,736
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position -</i> <i>governmental activities</i>	<u>\$ 27,736</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Commission adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2013, the City’s bank balances of \$7,057,823 were not exposed to custodial credit risk.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments – *continued*

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust. The City's investments at June 30, 2013 consisted of \$76,775 in Goldman Sachs Financial Square Treasury Obligation money market mutual funds with a Moody's credit rating of Aaa; and \$91,932 of funds held in escrow by the Oklahoma Municipal Assurance Group.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments

Restricted cash and investments in the enterprise funds at June 30, 2013 consist of the Debt Service Fund in the amount of \$76,775, refundable meter deposits of \$90,421, OMAG Reserve \$36,309; landfill post-closure \$1,186,632; and capital projects \$1,445,765.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

B. Receivables

Notes Receivable

The proceeds from two loans from Oklahoma Department of Commerce were transferred from the Kulli Chito Environmental Authority to the Broken Bow Public Works Authority, where the funds were used for capital improvements. A note receivable was set up on the Kulli Chito Environmental Authority to reflect the amounts due from Broken Bow Public Works Authority. The interfund note receivable / payable has been eliminated in the government-wide financial statements.

The balance of the note receivable at June 30, 2013 was:

Notes Receivable	\$ 170,941
Less: Current Portion	<u>(29,837)</u>
	<u><u>\$ 141,104</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
<i>Governmental Activities:</i>				
Capital Assets, not being depreciated:				
Land	\$ 1,184,594	\$ -	\$ -	\$ 1,184,594
Total Capital Assets, not being depreciated	<u>1,184,594</u>	<u>-</u>	<u>-</u>	<u>1,184,594</u>
Capital Assets, being depreciated:				
Land Improvements	167,451	249,133	-	416,584
Building and Improvements	2,535,807	21,203	-	2,557,010
Property and Equipment	2,459,069	97,430	-	2,556,499
Infrastructure	<u>5,558,449</u>	<u>-</u>	<u>-</u>	<u>5,558,449</u>
Total Capital Assets, being depreciated	10,720,776	367,766	-	11,088,542
Less Accumulated Depreciation	<u>3,137,042</u>	<u>395,711</u>	<u>-</u>	<u>3,532,753</u>
Total Capital Assets, being depreciated, net	<u>7,583,734</u>	<u>(27,945)</u>	<u>-</u>	<u>7,555,789</u>
Governmental Activities Capital Assets, net	<u>\$ 8,768,328</u>	<u>\$ (27,945)</u>	<u>\$ -</u>	<u>\$ 8,740,383</u>
<i>Business Type Activities:</i>				
Capital Assets, not being depreciated:				
Land	\$ 204,352	\$ -	\$ -	\$ 204,352
Total Capital Assets, not being depreciated	<u>204,352</u>	<u>-</u>	<u>-</u>	<u>204,352</u>
Capital Assets, being depreciated:				
Land Improvements	945,621	3,648	-	949,269
Building and Improvements	621,554	-	-	621,554
Property and Equipment	2,690,109	89,608	-	2,779,717
Electric System	1,329,466	-	-	1,329,466
Gravity Flow Water System	23,661,492	-	-	23,661,492
Sewer System	<u>7,945,447</u>	<u>-</u>	<u>-</u>	<u>7,945,447</u>
Total Capital Assets, being depreciated	37,193,689	93,256	-	37,286,945
Less Accumulated Depreciation	<u>10,270,178</u>	<u>1,000,425</u>	<u>-</u>	<u>11,270,603</u>
Total Capital Assets, being depreciated, net	<u>26,923,511</u>	<u>(907,169)</u>	<u>-</u>	<u>26,016,342</u>
Business Type Activities Capital Assets, net	<u>\$ 27,127,863</u>	<u>\$ (907,169)</u>	<u>\$ -</u>	<u>\$ 26,220,694</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 147,663
Public Safety	97,877
Streets	33,424
Culture and Recreation	55,037
Cemetery and Parks	<u>61,710</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 395,711</u>
 Business Type Activities:	
Water	\$ 792,892
Sewer	50,327
Electric	40,468
Landfill	<u>116,738</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 1,000,425</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Kulli Chito	\$ 9,527	Operating Transfer
General Fund	Public Works Authority	<u>34,836</u>	Operating Transfer
		<u>\$ 44,363</u>	

Interfund Transfers

<u>Transfers Out:</u>				
	<i>General</i>	<i>Enterprise</i>	<i>Other Governmental</i>	<i>Total</i>
Transfers In:				
General Fund	\$ -	\$ 500,000	\$ 16,700	\$ 516,700
Other Governmental	199,071	133,689	(16,700)	316,060
Enterprise	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 199,071</u>	<u>\$ 633,689</u>	<u>\$ -</u>	<u>\$ 832,760</u>

All transfers are operating transfers.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Interest rates range from 3.85% to 4.00%.

The assets acquired through capital leases are as follows:

<i>Assets:</i>	<i>Governmental Activities</i>
Buildings and Improvements	\$ 140,000
Vehicles	70,000
	<u>210,000</u>
Less Accumulated	<u>(32,861)</u>
	<u><u>\$ 177,139</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>	
2014	\$ 37,935	\$ 14,918
2015	18,967	14,918
2016	-	14,918
2017	<u>-</u>	<u>12,377</u>
Total minimum lease payments	56,902	57,131
Less amount representing	<u>(1,854)</u>	<u>(15,528)</u>
Present value of minimum lease	<u><u>\$ 55,048</u></u>	<u><u>\$ 41,603</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Governmental Activities – Long Term Debt

Other long-term debt obligations of the City of Broken Bow are as follows:

First Bank and Trust - 3.50% interest, monthly payments of \$5,795, due August 2013. Proceeds used for the Senior Citizens Nutrition Center. The note is secured by real estate and will be retired by a quarter of one-cent sales tax as approved by the vote of citizens.	\$ 11,323
Total Other Notes Payable	<u>\$ 11,323</u>

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	<u>\$ 11,323</u>	<u>\$ 268</u>
Total	<u>\$ 11,323</u>	<u>\$ 268</u>

Broken Bow Public Works Authority – Long Term Debt

Utility System and Sales Tax Revenue Note, Series 2006

In May 2006, the Broken Bow Public Works Authority issued \$7,890,000 Utility System and Sales Tax Revenue Note, Series 2006. Proceeds of the note were used to defease \$7,950,000 of outstanding 2002 Refunding Bonds. The note bears interest of 4.52%. Proceeds of the 2006 note were placed in an escrow account for the purpose of generating resources for all future debt service payments to pay off the 2002 Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's statement of net position. This advance refunding will reduce the debt service payments by \$1,591,118 over the term of the bonds and resulted in an economic gain of \$589,214.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	\$ 300,000	\$ 274,138
2015	300,000	260,578
2016	360,000	247,018
2017	360,000	230,746
2018	360,000	214,474
2019-2023	2,130,000	807,950
2024-2028	<u>2,255,000</u>	<u>281,822</u>
 Total	 <u><u>\$ 6,065,000</u></u>	 <u><u>\$ 2,316,726</u></u>

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the annual principal and interest requirements on the bonds for that year.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Water Resources Board SRF Promissory Note

In May 2006, the Broken Bow Public Works Authority issued a \$1,640,000 OWRB SRF Promissory Note, Series 2006A. The note, when combined with amounts still on deposit in the 2003 Revenue Bonds construction account, refunded \$4,145,000 of outstanding 2003 Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The remaining balance on the short-term note will be used to construct improvements to the City's drinking water system. At June 30, 2013, the note had a balance of \$1,246,488 and carries an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	\$ 69,266	\$ 41,850
2015	71,782	39,334
2016	74,290	36,826
2017	77,087	34,029
2018	79,886	31,230
2019-2023	445,041	110,539
2024-2028	362,296	26,610
	<u>\$ 1,179,648</u>	<u>\$ 320,418</u>

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Water Resources Board SRF Promissory Note

In December 2006, the Broken Bow Public Works Authority issued a \$5,585,000 Oklahoma Water Resources Board Drinking Water SRF Promissory Note, Series 2006B. Proceeds from the note will be used to construct improvements to the City's drinking water system. At June 30, 2013, the note had a balance of \$4,576,498, at an interest rate of 3.55%.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	\$ 223,853	\$ 154,979
2015	231,982	146,849
2016	240,034	138,798
2017	249,125	129,707
2018	258,172	120,659
2019-2023	1,438,197	455,961
2024-2028	1,719,127	175,030
	<u>\$ 4,360,490</u>	<u>\$ 1,321,983</u>

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Army Corp of Engineers – Water Rights

Water rights, for 4,241 acre feet in Broken Bow Lake, are financed at a rate of 2.742% by a note with the United States Army Corp of Engineers. The contract requires the purchase price of \$170,189 to be retired over a 27 year period with yearly payments of \$8,764. The principal balance outstanding at June 30, 2013, was \$33,177.

Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	\$ 7,865	\$ 898
2015	8,081	683
2016	8,303	461
2017	8,928	234
	<u>\$ 33,177</u>	<u>\$ 2,276</u>

The Authority is obligated for the future use of additional water rights amounting to 4,054 acre feet in Broken Bow Lake. These rights are to be financed at an interest rate of 2.742% through a note with the United States Corp of Engineers. The contract purchase price is \$154,165 and the amounts outstanding at June 30, 2013, is \$141,174. This amount is to be retired over a 27 year period with annual interest only payments of \$4,227 until the Authority's acre feet usage exceeds the first 4,241 acre feet, which has not yet been exceeded, therefore no amortization schedule is available at this time.

Oklahoma Department of Commerce

The Authority has an obligation on an economic development loan from the Oklahoma Department of Commerce related to construction of a wood products manufacturing plant which requires monthly payments of \$1,439. The note has a 0% stated interest rate. The effective interest rates used to amortize the note is 6%. The balance of the note, which includes principal and imputed interest and the related unamortized discounts at June 30, 2013, are \$151,945 and \$33,974, respectively.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Principal payments and imputed interest due on the Oklahoma Department of Commerce note are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 10,433	\$ 6,838	\$ 17,271
2015	11,076	6,195	17,271
2016	11,759	5,512	17,271
2017	12,484	4,787	17,271
2018	13,255	4,016	17,271
2019-2023	<u>58,964</u>	<u>6,626</u>	<u>65,590</u>
	<u>\$ 117,971</u>	<u>\$ 33,974</u>	<u>\$ 151,945</u>

United States Department of Agriculture Rural Development Promissory Note

In November 2007, Broken Bow Public Works Authority issued a \$4,938,000 United States Department of Agriculture Rural Development Promissory Note. Proceeds of the note were used to construct improvements to the City's wastewater system. At June 30, 2013, the note had an interest rate of 4.375%.

During 2013-2013, the Broken Bow Public Works Authority refinanced the Rural Development Note with Oklahoma Water Resources Board. The loan was paid in full at June 30, 2013.

Oklahoma Water Resources Board Promissory Note

In May 2013, the Broken Bow Public Works Authority refinanced an existing USDA Rural Development Promissory Note with Oklahoma Water Resources Board Drinking Water SRF Promissory Note, Series 2013. At June 30, 2013, the note had a balance of \$4,569,605, at an interest rate of 2.25%, maturing September 2035. Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2014	\$ 160,072	\$ 101,172
2015	163,711	97,533
2016	167,432	93,811
2017	171,239	90,005
2018	175,131	86,112
2019-2023	937,219	368,999
2024-2028	1,048,705	257,513
2029-2033	1,173,453	132,765
2034-2038	<u>572,643</u>	<u>15,154</u>
	<u>\$4,569,605</u>	<u>\$1,243,064</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Kulli Chito Environmental Authority – Long Term Debt

Oklahoma Department of Commerce

The Authority has obligations on two economic development loans from the Oklahoma Department of Commerce: one for Dominance Industries, Inc., which requires monthly payments of \$1,667 and one for Tyson Foods, Inc., which requires monthly payments of \$1,550. Both notes have a 0% stated interest rate. The effective interest rates used are 5% - 6%. The balance on the notes and the related unamortized discounts at June 30, 2013, are \$196,803 and \$25,862, respectively.

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 29,837	\$ 8,763	\$ 38,600
2015	31,520	7,080	38,600
2016	33,298	5,302	38,600
2017	35,237	3,363	38,600
2018	37,495	1,105	38,600
2019-2021	<u>3,554</u>	<u>249</u>	<u>3,803</u>
	<u>\$170,941</u>	<u>\$25,862</u>	<u>\$196,803</u>

Other long-term debt obligations of the Kulli Chito Environmental Authority are as follows:

First National Bank - 3.85% interest, monthly payments of \$2,238, due September 2013. Proceeds used for the purchase of a sanitation truck.	6,574
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McCurtain County National Bank - 2.925% interest, monthly payments of \$3,221, due May 2015. Proceeds used for the purchase of a side loader.	<u>71,846</u>
	<u>\$ 78,420</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Principal maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2013	\$ 37,042	\$ 1,609	\$ 6,574	\$ 138
2014	<u>34,804</u>	<u>628</u>	<u>-</u>	<u>-</u>
	<u>\$ 71,846</u>	<u>\$ 2,237</u>	<u>\$ 6,574</u>	<u>\$ 138</u>

Changes in long-term liabilities

Long term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Capital Leases	\$ 157,802	\$ -	\$ 61,151	\$ 96,651	\$ 50,104
Notes Payable	<u>152,044</u>	<u>-</u>	<u>140,721</u>	<u>11,323</u>	<u>11,323</u>
Total Long Term Liabilities	<u>\$ 309,846</u>	<u>\$ -</u>	<u>\$ 201,872</u>	<u>\$ 107,974</u>	<u>\$ 61,427</u>
<i>Business Type Activities:</i>					
Notes Payable	\$ 11,069,841	\$ 4,569,605	\$ 4,988,018	\$ 10,651,428	\$ 544,942
Revenue Bonds Payable	<u>6,365,000</u>	<u>-</u>	<u>300,000</u>	<u>6,065,000</u>	<u>300,000</u>
Total Long Term Liabilities	<u>\$ 17,434,841</u>	<u>\$ 4,569,605</u>	<u>\$ 5,288,018</u>	<u>\$ 16,716,428</u>	<u>\$ 844,942</u>

Interest expense was charged to the functions/programs of the primary government as follows:

<i>Business Type Activities</i>		<i>Governmental Activities</i>	
Water	\$ 698,966	Public Safety	\$ 1,435
Landfill	<u>13,830</u>	Culture and Recreation	<u>2,967</u>
	<u>\$ 712,796</u>		<u>\$ 4,402</u>

Debt Service Coverage Requirement

The Revenue Bonds and OWRB Promissory Notes require that Net Revenue Available for Debt Service must equal 125% of the maximum annual debt service. Actual coverage was as follows:

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Debt Service Coverage Requirement - continued

Net Revenue Available for Debt Service

Operating Revenue	\$ 4,620,963
Operating Expenses	3,296,154
Less: Depreciation Expense	(883,687)
Less: Amortization Expense	<u>(51,782)</u>
Total Operating Expense	2,360,685
Interest Revenue	<u>21,327</u>
Net Revenue Available for Debt Service	<u><u>\$ 2,281,605</u></u>

Maximum Annual Debt Service Requirements:

Utility System Sales Tax Revenue Note	\$ 601,258
OWRB SRF Promissory Note, 2006A	121,341
OWRB SRF Promissory Note, 2006B	<u>378,832</u>
Total Debt Service Requirement	<u><u>\$ 1,101,431</u></u>

Coverage	<u>207%</u>
Coverage Requirement	<u>125%</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

F. Fund Equity

Net Position Restricted by Enabling Legislation

The government-wide statement of net position reports \$632,490 of restricted net position, of which \$594,668 is restricted by enabling legislation.

Enabling Legislation:

Cemetery Fund	\$ 2,082
Senior Citizens Fund	65,148
Library Fund	<u>527,438</u>
	<u><u>\$ 594,668</u></u>

Deficit Fund Balances

Deficit fund balance of \$3,801 was reported in the Nutrition Fund as of June 30, 2013.

Governmental Fund Balance Classifications

As of June 30, 2013, fund balances of the Governmental Funds were classified as follows:

	General	Grant	Other Governmental	Total
Restricted				
Debt Service				
Grant Fund Expenditures	\$ -	\$ -	\$ 65,148	\$ 65,148
Cemetery Care Capital Expenditures	-	-	21,569	21,569
Debt Service	-	-	2,082	2,082
Police Expenditures	-	-	527,438	527,438
Assigned	-	-	16,253	16,253
Special Assessment				
Unassigned	6,779	-	-	6,779
	<u>595,339</u>	<u>147,981</u>	<u>(3,801)</u>	<u>739,519</u>
	<u><u>\$ 602,118</u></u>	<u><u>\$ 147,981</u></u>	<u><u>\$ 628,689</u></u>	<u><u>\$ 1,378,788</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans

Firefighters' Retirement Plan

The City contributes to pension plans on behalf of all full time employees including the police and fire departments. Following is a discussion of each plan, and the summary financial data:

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2013. Participating members are required to contribute 8%.

Three Year Trend Information:

Year Ending June 30,	Covered	Total Pension				On Behalf
	Payroll	Cost	City Share	Employee Share	Payments	
2013	\$ 252,554	\$ 51,936	\$ 31,732	\$ 20,204	\$ -	
2012	245,369	51,527	31,898	19,629	-	
2011	244,520	51,349	31,787	19,562	60,000	

As of July 1, 2013, the latest available actuarial valuation, the actuarial present value of credited projected benefits was \$3,081,898,000, and net assets available for benefits were \$1,811,651,000. Unfunded liabilities, which are an obligation of the state of Oklahoma, totaled \$1,270,247,000.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Firefighters' Retirement Plan – continued

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Municipal Retirement Plan

The Oklahoma Municipal Retirement Fund (OMRF) issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements of City of Broken Bow and employees are established and may be amended by the OMRF board. Employees are required to contribute 5.25 percent of their annual covered salary. City of Broken Bow is required to contribute at an actuarially determined rate; the rate at June 30, 2013 is 10.75% of covered payroll.

Annual Pension Cost: For 2012-13, City of Broken Bow's annual pension cost of \$212,739 was equal to the required and actual contributions. The required contribution was determined as part of the March 10, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

Trend Information:

Year Ending June 30,	Contribution Rate	Total Cost (APC)	Contributed	Net Pension Obligation
2013	10.75%	\$ 212,739	100%	\$ -
2012	10.75%	189,158	100%	-
2011	10.75%	179,210	100%	-

Funding Status and Funding Progress: As of March 2012, the most recent actuarial valuation date, the plan was 78.1 percent funded. The actuarial accrued liability for benefits was \$3,432,409, and the actuarial value of assets was \$2,679,628, resulting in an unfunded actuarial accrued liability (UAAL) of \$752,781. The covered payroll (total annualized rate of pay as of the valuation date based on actual pay for the preceding year) was \$1,626,437, and the ratio of the UAAL to the covered payroll was 46.3 percent.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Municipal Retirement Plan – continued

The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis.

The schedule of funding progress, presented as OSI following the notes to the financial statements, present trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

H. Landfill Closure and Post-Closure Care Costs

State laws and regulations require the Kulli Chito Environmental Authority, a blended enterprise fund, to perform certain closure activities for its Broken Bow landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, the Authority reports a portion of the closure and post-closure costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The total closure and post-closure costs are \$1,244,188, as stated by the engineering firm and approved by the Oklahoma Department of Environmental Quality. Of this amount, \$986,011 has been accrued through June 30, 2013. This amount represents the cumulative amount to date based on the use of 91% of the current estimated capacity of the landfill. There are approximately 2.55 landfill life years remaining. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$258,177, as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2012. However, the Authority expects to operate the landfill until at least year 2014. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The Authority sets aside a portion of its net proceeds for financial assurance. As of June 30, 2013, \$1,186,631 has been restricted for payment of future closure and post closure care costs.

I. Risk Management

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2013

IV. DETAILED NOTES ON ALL FUNDS - continued

J. Commitments and Contingencies

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2013, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

K. Economic Dependence

The enterprise fund (Broken Bow Public Works Authority) is economically dependent upon major water and electric utility users to produce revenue sufficient to make its debt service payments and fund its operations.

City of Broken Bow, Oklahoma
Unaudited – Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
For the Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial				UAAL as	
	Value of Assets	Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Percentage of Covered Payroll	a
	a	b	b-a	a/b	c	(b-a)/c
1/1/2005	\$ 1,164,886	\$ 1,650,037	\$ 485,151	70.6%	\$ 1,479,690	32.8%
1/1/2006	1,363,571	1,686,147	322,576	80.9%	1,263,699	25.5%
1/1/2007	1,579,674	1,812,069	232,395	87.2%	1,315,886	17.7%
1/1/2008	1,853,705	2,254,630	400,925	82.2%	1,252,939	32.0%
1/1/2009	1,918,393	2,643,857	725,464	72.6%	1,358,560	53.4%
1/1/2010	2,141,125	2,858,553	717,428	74.9%	1,458,669	49.2%
1/1/2011	2,443,255	3,251,926	808,671	75.1%	1,658,433	48.8%
1/1/2012	2,679,628	3,432,409	752,781	78.1%	1,626,437	46.3%

The schedule of funding progress presented above presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Broken Bow, Oklahoma
Budgetary Information
June 30, 2013

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year end; therefore, encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

City of Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund – Modified Cash Basis
For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget
REVENUE				
Taxes	\$ 1,469,622	\$ 1,469,622	\$ 1,730,930	\$ 261,308
Intergovernmental	143,395	143,395	252,747	109,352
License	91,810	91,810	118,390	26,580
Charges for Service	53,897	53,897	70,497	16,600
Fines	162,989	162,989	164,482	1,493
Rent	504	504	560	56
Grant	20,000	20,000	-	(20,000)
Miscellaneous	105,391	105,391	78,803	(26,588)
Interest	3,796	3,796	3,287	(509)
Total Revenue	2,051,404	2,051,404	2,419,696	368,292
EXPENDITURES				
Current				
General Government	358,620	358,620	309,903	48,717
Public Safety	1,609,418	1,609,418	1,494,614	114,804
Streets	742,680	742,680	618,305	124,375
Culture and Recreation	27,115	27,115	22,891	4,224
Cemetery and Parks	276,092	276,092	235,985	40,107
Debt Service	70,950	70,950	67,943	3,007
Total Expenditures	3,084,875	3,084,875	2,749,641	335,234
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,033,471)	(1,033,471)	(329,945)	703,526
Other Financing Sources				
Transfers In	800,000	800,000	511,000	(289,000)
Transfers Out	(88,091)	(88,091)	(199,071)	(110,980)
Total Other Financing Sources	711,909	711,909	311,929	(399,980)
Net Change in Fund Balances	(321,562)	(321,562)	(18,016)	303,546
Fund Balances - Beginning	350,262	350,262	613,355	263,093
Fund Balances - Ending	\$ 28,700	\$ 28,700	\$ 595,339	\$ 566,639

City of Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Grant Fund – Modified Cash Basis
For the Year Ended June 30, 2013

	Budget Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget
REVENUE				
Grants	\$ 548,999	\$ 548,999	\$ 182,549	\$ (366,450)
Miscellaneous	-	-	5,485	5,485
Total Revenue	548,999	548,999	188,034	(360,965)
EXPENDITURES				
Current				
Public Safety	90,000	90,000	52,543	37,457
Culture and Recreation	827,920	827,920	215,717	612,203
Total Expenditures	917,920	917,920	268,260	649,660
Excess (Deficiency) of Revenues Over (Under) Expenditures	(368,921)	(368,921)	(80,226)	288,695
Other Financing Sources				
Transfers In	368,921	368,921	297,969	(70,952)
Transfers Out	-	-	-	-
Total Other Financing Sources	368,921	368,921	297,969	(70,952)
Net Change in Fund Balances	-	-	217,743	217,743
Fund Balances - Beginning	-	-	(69,762)	(69,762)
Fund Balances - Ending	\$ -	\$ -	\$ 147,981	\$ 147,981

City of Broken Bow, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balance
General Fund – Modified Cash Basis
June 30, 2013

	General	Travel	Craig Industrial	Total
<i>Assets</i>				
Cash and Cash Equivalent	\$ 594,697	\$ 2,025	\$ 6,779	\$ 603,501
Due From Other Funds	54,278	-	-	54,278
Total Assets	<u>\$ 648,975</u>	<u>\$ 2,025</u>	<u>\$ 6,779</u>	<u>\$ 657,779</u>
<i>Liabilities</i>				
Deposits	\$ 5,500	\$ 2,025	\$ -	\$ 7,525
Bonds Pending Court	9,809	-	-	9,809
Due To Other Funds	38,327	-	-	38,327
Total Liabilities	<u>53,636</u>	<u>2,025</u>	<u>-</u>	<u>55,661</u>
<i>Fund Balances</i>				
Assigned	-	-	6,779	6,779
Unassigned	595,339	-	-	595,339
Total Fund Balances	<u>595,339</u>	<u>-</u>	<u>6,779</u>	<u>602,118</u>
Total Liabilities and Fund Balances	<u>\$ 648,975</u>	<u>\$ 2,025</u>	<u>\$ 6,779</u>	<u>\$ 657,779</u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund – Modified Cash Basis
For the Year End June 30, 2013

	General	Travel	Craig Industrial	Total
REVENUE				
Taxes	\$ 1,730,930	\$ -	\$ -	\$ 1,730,930
Intergovernmental	252,747	-	-	252,747
License and Permits	118,390	-	-	118,390
Charges for Service	70,497	-	-	70,497
Fines and Forfeitures	164,482	-	-	164,482
Rent	560	-	7,800	8,360
Miscellaneous	78,803	-	-	78,803
Interest	3,287	-	-	3,287
Total Revenue	2,419,696	-	7,800	2,427,496
EXPENDITURES				
<i>Current</i>				
General Government	309,903	-	8,872	318,775
Public Safety	1,446,911	-	-	1,446,911
Streets	603,305	-	-	603,305
Culture and Recreation	12,808	-	-	12,808
Cemetery and Parks	164,201	-	-	164,201
<i>Capital Outlay</i>				
Public Safety	47,703	-	-	47,703
Streets	15,000	-	-	15,000
Culture and Recreation	10,083	-	-	10,083
Cemetery and Parks	71,784	-	-	71,784
Debt Service	67,943	-	-	67,943
Total Expenditures	2,749,641	-	8,872	2,758,513
Excess (Deficiency) of Revenues Over (Under) Expenditures	(329,945)	-	(1,072)	(331,017)
Other Financing Sources				
Transfers In	511,000	-	5,700	516,700
Transfers Out	(199,071)	-	-	(199,071)
Total Other Financing Sources	311,929	-	5,700	317,629
Net Change in Fund Balances	(18,016)	-	4,628	(13,388)
Fund Balances - Beginning, restated	613,355	-	2,151	615,506
Fund Balances - Ending	\$ 595,339	\$ -	\$ 6,779	\$ 602,118

City of Broken Bow, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2013

	<u>Senior Citizens</u>	<u>Airport</u>	<u>Cemetery Care</u>	<u>Library</u>	<u>Police Donation</u>	<u>Nutrition</u>	<u>Total</u>
Assets							
Cash	\$ 57,899	\$ 110	\$ 2,082	\$ 527,438	\$ 9,602	\$ 3,199	\$ 600,330
Due From Other Funds	<u>7,249</u>	<u>21,459</u>	<u>-</u>	<u>-</u>	<u>6,651</u>	<u>-</u>	<u>35,359</u>
Total Assets	<u>\$ 65,148</u>	<u>\$ 21,569</u>	<u>\$ 2,082</u>	<u>\$ 527,438</u>	<u>\$ 16,253</u>	<u>\$ 3,199</u>	<u>\$ 635,689</u>
Liabilities							
Due to Other Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 7,000</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000</u>	<u>7,000</u>
Fund Balances							
Restricted	65,148	21,569	2,082	527,438	16,253	-	632,490
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,801)</u>	<u>(3,801)</u>
Total Fund Balances	<u>65,148</u>	<u>21,569</u>	<u>2,082</u>	<u>527,438</u>	<u>16,253</u>	<u>(3,801)</u>	<u>628,689</u>
Total Liabilities and Fund Balances	<u>\$ 65,148</u>	<u>\$ 21,569</u>	<u>\$ 2,082</u>	<u>\$ 527,438</u>	<u>\$ 16,253</u>	<u>\$ 3,199</u>	<u>\$ 635,689</u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2013

	Senior Citizens	Airport	Cemetery Care	Library	Police Donation	Nutrition	Total
REVENUE							
Taxes	\$ 205,104	\$ -	\$ -	\$ 205,104	\$ -	\$ -	\$ 410,208
Rent	150	-	-	-	-	-	150
Grant	-	-	-	-	-	51,530	51,530
Miscellaneous	1,955	(1)	452	1	-	-	2,407
Interest	-	-	-	4,252	-	-	4,252
Total Revenue	207,209	(1)	452	209,357	-	51,530	468,547
EXPENDITURES							
<i>Current</i>							
Culture and Recreation	-	-	-	76,392	-	-	76,392
General Government	112,256	-	-	-	-	-	112,256
<i>Capital Outlay</i>							
Culture and Recreation	-	-	-	3,200	-	-	3,200
General Government	8,950	-	-	-	-	-	8,950
Health and Welfare	-	-	-	-	-	58,932	58,932
Debt Service	69,545	-	-	68,152	-	-	137,697
Total Expenditures	190,751	-	-	147,744	-	58,932	397,427
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,458	(1)	452	61,613	-	(7,402)	71,120
Other Financing Sources							
Transfers In	10,000	-	-	-	-	8,091	18,091
Transfers Out	-	-	-	-	-	-	-
Total Other Financing Sources	10,000	-	-	-	-	8,091	18,091
Net Change in Fund Balances	26,458	(1)	452	61,613	-	689	89,211
Fund Balances - Beginning, restated	38,690	21,570	1,630	465,825	16,253	(4,490)	539,478
Fund Balances - Ending	<u>\$ 65,148</u>	<u>\$ 21,569</u>	<u>\$ 2,082</u>	<u>\$ 527,438</u>	<u>\$ 16,253</u>	<u>\$ (3,801)</u>	<u>\$ 628,689</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Broken Bow, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Broken Bow, Oklahoma's basic financial statements, and have issued our report thereon dated February 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Broken Bow, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Broken Bow, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Broken Bow, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Broken Bow, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBC CPAs & Advisors

February 13, 2014

City of Broken Bow, Oklahoma
Summary Schedule of Prior Year Findings and Responses
June 30, 2013

2012-1 Deficit fund balance in the Nutrition Fund.

Current Status

In the prior year, the Nutrition Fund's share of the pooled cash account showed an overdraft. This also created a negative fund balance in the Nutrition Fund, which was reported as a finding in the 2012 report. In 2013, the City advanced the Nutrition Fund \$7,000 to cover and eliminate the "book" overdraft.

Since they are paid on a reimbursement basis, grant funds available to the Nutrition Fund to cover its expenditures are not received until the month subsequent to when they are expended. Therefore, while the Nutrition Fund still shows a negative fund balance in the 2013 financial statements, it is because activity is reported on the modified cash basis. If grant reimbursements could be shown as a receivable on the Nutrition Fund's books, the negative fund balance would be eliminated. We therefore consider the 2012 finding resolved.